

D70J00
Maryland Automobile Insurance Fund

Operating Budget Data

(\$ in Thousands)

	<u>CY 02</u> <u>Actual</u>	<u>CY 03</u> <u>Budget</u>	<u>CY 03</u> <u>Actual</u>	<u>CY 02-03</u> <u>Change</u>	<u>CY 04</u> <u>Esimated</u>	<u>CY 03-04</u> <u>Change</u>
Operations	\$44,903	\$53,837	\$48,857	\$3,954	\$49,525	\$668
Contractual Services	130	61	48	-82	38	-10
Grants	0	0	0	0	0	0
Adjusted Grand Total	\$45,033	\$53,898	\$48,905	\$3,872	\$49,563	\$658
Nonbudgeted	45,033	53,898	48,905	3,872	49,563	658
Annual % Change		19.7%	-9.3%		1.3%	

- The Maryland Automobile Insurance Fund (MAIF) anticipates an operating gain for calendar 2003 after three consecutive years with an operating loss. MAIF achieved an operating gain with an increase in earned premiums, an increase in investment income, and a decrease in claims incurred.

Personnel Data

(\$ in Thousands)

	<u>CY 02</u> <u>Actual</u>	<u>CY 03</u> <u>Budget</u>	<u>CY 03</u> <u>Actual</u>	<u>CY 04</u> <u>Estimated</u>	<u>CY 03-04</u> <u>Change</u>
Regular Positions	543.0	573.0	538.0	537.0	-1.0
Contractual FTEs	2.5	2.5	2.0	2.0	0.0
Total Personnel	545.5	575.5	540.0	539.0	-1.0

- MAIF had included 575.5 positions in its calendar 2003 budget but ended the year with 540.0 positions. The reduction of 35.5 positions is due to the leveling of applications and claims volumes.
- MAIF expects to reduce one regular position in the Insured Division from calendar 2003 to 2004. The position reduction is a response to the leveling of applications and claims volumes.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Maryland Automobile Insurance Market: Starting in the second half of calendar 2000 and continuing through calendar 2002, the automobile insurance market witnessed a tightening of underwriting by private companies due to increasing loss ratios being experienced by the property and casualty industry. This led to a significant increase in MAIF's application volume during these two and a half years. MAIF had previously seen a large reduction in its application volume in 1997, 1998, and 1999. This was a reflection of the industry's aggressive pursuit of market share due to the extremely favorable investment returns available during that period. MAIF's application volume for 2003 is up only slightly from 2002. During the last two years, private companies have been successfully raising rates so as to return to rate levels that generate an underwriting profit.

Issues

Current Financial Status: MAIF has experienced recent operating losses due to dramatic increases in claims that outpaced income from policies and investments. If MAIF's surplus drops below the assessment threshold (25% of the average of the last three years' direct written premiums) and MAIF has an operating loss, then it is required to certify an assessment to all other insurance companies doing business in Maryland. In calendar 2003, MAIF has reversed the recent trend of operating losses and expects to achieve an operating gain and a balance above the assessment threshold. Therefore, it does not appear that MAIF will be required to certify an assessment.

Recommended Actions

1. Nonbudgeted.

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Operating Budget Analysis

Program Description

The Maryland Automobile Insurance Fund (MAIF) was created by Chapter 73, Acts of 1972 to replace the Maryland Automobile Insurance Plan and the Uninsured Claim and Judgment Fund. MAIF is not part of any department of the State government but is a nonbudgeted, independent body, reporting directly to the Governor's Office and also responsive to the legislature. MAIF operates on a calendar year basis and performs two major functions: (1) writing insurance policies for those Maryland residents whose applications have been declined by private insurers in the State and (2) administering and paying claims to Maryland residents who are involved in Maryland accidents with uninsured motorists, or hit and run incidents where the injured party does not own a motor vehicle. The Insured Division handles the first function and the Uninsured Division handles the second function. MAIF is required to assess a surcharge on the Maryland auto insurance industry whenever the MAIF surplus falls below the assessment threshold level and MAIF has an operating loss. The threshold is defined as 25% of the average written premiums for the previous three years. MAIF's mission addresses the need to:

- offer insurance to all eligible Maryland citizens who are unable to obtain insurance in the private market;
- handle claims for MAIF policyholders and claimants in a fair, expeditious, and professional manner; and
- provide efficient services to minimize the subsidy from the insured motorists of Maryland.

Performance Analysis: Managing for Results

A review of MAIF program measurement data and performance measures helps convey overall trends as well as performance within the Insured and Uninsured Division. **Exhibit 1** provides program measurement data for the Insured Division of MAIF. The data shows a leveling off of gross written policies from calendar 2002 to 2004 after a significant increase from calendar 2001 to 2002. The automobile insurance market had previously witnessed a tightening of underwriting by private companies due to substantial loss ratios being experienced by the property and casualty industry. This led to a significant increase in MAIF's application volume. Exhibit 1 also shows that, as with gross written policies, other measures have leveled off from calendar 2002 to 2004. Reported claims, reported accidents, and paid claims have all experienced slower growth due to the leveling of gross written policies.

Exhibit 1
Program Measurement Data
Insured Division
Maryland Automobile Insurance Fund
Calendar 2001 – 2004

	<u>CY 2001</u> <u>Actual</u>	<u>CY 2002</u> <u>Actual</u>	<u>CY 2003</u> <u>Estimated</u>	<u>CY 2003</u> <u>Actual*</u>	<u>CY 2004</u> <u>Estimated</u>	<u>CY 01-03</u> <u>Ann. Chg.</u>	<u>CY 03-04</u> <u>Ann. Chg.</u>
Gross Written Policies	134,893	166,136	169,400	172,599	174,000	13.1%	0.8%
Net Written Policies	86,817	91,347	91,800	90,676	94,100	2.2%	3.8%
Reported Claims	71,329	95,833	99,800	98,645	102,500	17.6%	3.9%
Reported Accidents	37,354	50,229	52,600	51,537	54,000	17.5%	4.8%
Paid Claims	39,830	54,967	59,300	60,033	60,900	22.8%	1.4%
Claims Outstanding	11,959	13,465	15,000	16,578	15,000	17.7%	-9.5%

* The actual 2003 figures are subject to change due to year-end audit adjustments.

Source: Maryland Automobile Insurance Fund

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Exhibit 2 provides performance measures for both the Insured and Uninsured Divisions of MAIF. A review of the submitted Managing for Results (MFR) performance data shows that performance is moving (or is estimated to move) in a positive direction. MAIF effectively links its performance measures to goals and objectives.

Objective 1.1 in the Insured Division is to process private passenger new business and rewrite applications in an average of 8 days for calendar 2003. MAIF processed applications in an average of 19.6 days for calendar 2001, 8.6 days for calendar 2002, and estimates 8 days for calendar 2003 and 2004.

Objective 1.1 in the Uninsured Division is to maintain a closure ratio at or above 100%. MAIF achieved a 112% closure ratio for calendar 2001, a 93% closure ratio for calendar 2002, and estimates a 100% closure ratio for calendar 2003 and 2004. For calendar 2001, MAIF closed more claims than were available for the calendar year.

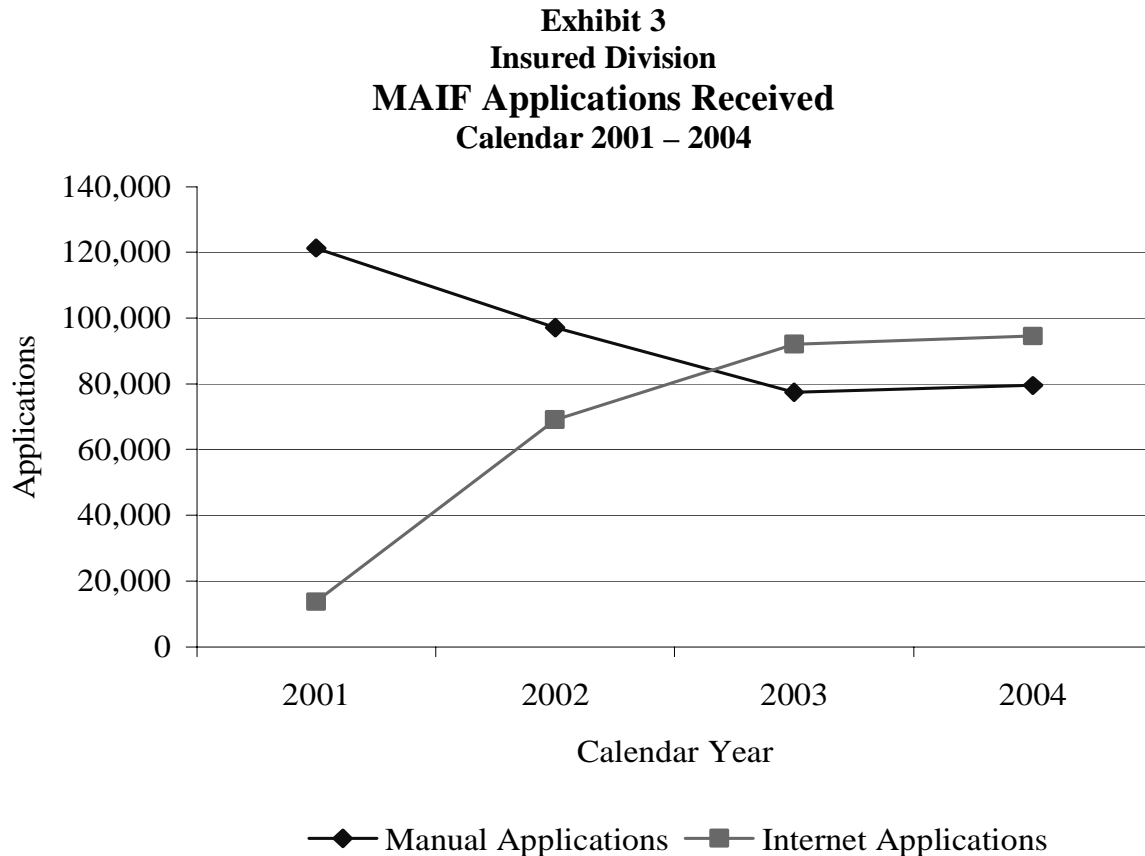
Exhibit 2
Program Measurement Data
Maryland Automobile Insurance Fund
Calendar 2001 – 2004

	<u>CY 01</u> <u>Actual</u>	<u>CY 02</u> <u>Actual</u>	<u>CY 03</u> <u>Estimated</u>	<u>CY 04</u> <u>Estimated</u>	<u>Ann.</u> <u>Chg.</u> <u>01-02</u>	<u>Ann.</u> <u>Chg.</u> <u>02-04</u>
Total number of private passenger new applications received (Insured Division)	134,893	166,136	169,400	174,000	23.2%	2.3%
Number of private passenger new applications processed (Insured Division)	137,094	169,409	169,400	174,000	23.6%	1.3%
Average number of days to process private passenger new applications (Insured Division)	19.6	8.6	8.0	8.0	-56.1%	-3.6%
Number of claims available (Uninsured Division)	909	1,040	1,020	1,020	14.4%	-1.0%
Number of claims closed (Uninsured Division)	1,019	963	1,020	1,020	-5.5%	2.9%
Closure ratio (Uninsured Division)	112%	93%	100%	100%	-17.0%	3.7%
Objective 1.1, Insured Division	To process private passenger new business and rewrite applications in an average of 8 days for calendar year 2003.					
Objective 1.1, Uninsured Division	Maintain a closure ratio at or above 100%.					

Source: Maryland Automobile Insurance Fund

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MAIF has seen a recent rise in the number of Internet applications received in the Insured Division. MAIF received 13,655 Internet applications in calendar 2001 and expects to receive 94,500 Internet applications in calendar 2004. This trend causes the number of manual applications received to decrease. MAIF received 121,238 manual applications in calendar 2001 and expects to receive 79,500 in calendar 2004. **Exhibit 3** illustrates the inverse relationship. Increased Internet capabilities will allow MAIF to provide better services to all of its customers.



Source: Maryland Automobile Insurance Fund

Adjustments to the Current Budget

MAIF began calendar 2003 with a projected budget of \$53,897,764 and anticipated 169,400 policies. MAIF ended calendar 2003 with a projected budget of \$48,904,959 and 172,599 policies. Calendar 2003 actual figures are subject to change due to year-end audit adjustments. MAIF expects a budget of \$49,562,753 and 174,000 policies for calendar 2004.

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MAIF began calendar 2003 with 575.5 positions but ended the year with 540.0 positions. The reduction of 35.5 positions is due to the leveling of applications and claims volumes. MAIF expects to reduce one regular position in calendar 2004 to bring the total to 539.0 positions.

Governor's Proposed Budget

MAIF is a nonbudgeted, independent body that is not part of any department of the State government. MAIF operates on a calendar year basis, and actual figures labeled 2003 are subject to close-out adjustments. The budget for calendar 2004 is the projected budget adopted by MAIF, as approved by the Board of Trustees.

The overall budget increases by \$657,795 (1.3%) from calendar 2003 to 2004. This increase is a reflection of slowed growth in applications and claims volumes. The change includes a \$198,000 increase for personnel expenses, a \$450,000 increase for employee awards/bonuses, a \$380,000 increase for the insurance premium tax, and a \$459,000 decrease for contractual maintenance of computer equipment and hardware. **Exhibit 4** shows the distribution of funds comparing calendar 2003 with 2004.

Exhibit 4
Governor's Proposed Budget
Maryland Automobile Insurance Fund
(\$ in Thousands)

	<u>Nonbudgeted</u> <u>Fund</u>	<u>Total</u>
2003 Actual	\$48,905	\$48,905
2004 Estimate	49,563	49,563
Amount Change	\$658	\$658
Percent Change	1.3%	1.3%
Where It Goes:		
Personnel Expenses		
Increase in salaries		\$1,368
Turnover expectancy.....		-585
Health insurance		-556
Deferred compensation match.....		-22
Other adjustments		-7
Other Changes		
Contractual maintenance of computer equipment and software		-459
Employee awards/incentive bonuses		450
Insurance premium tax.....		380
Treaty reinsurance		289
Purchase of automobiles		-275
Appraisals for underwriting purposes.....		64
Miscellaneous adjustments.....		11
Total		\$658

Note: Numbers may not sum to total due to rounding.

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Exhibit 5 provides financial information for the Insured Division. MAIF projects an operating gain after three years of operating losses caused by dramatic increases in claims that outpaced income from policies and investments. The projected ending surplus for both calendar 2003 and 2004 are above the required assessment threshold. The assessment threshold is 25% of the average of the last three years' direct written premiums.

Exhibit 5
Insured Division
Maryland Automobile Insurance Fund
Calendar 2002 – 2004

	CY 2002 <u>Actual</u>	As of <u>11/30/2003 Actual*</u>	CY 2004 <u>Estimated**</u>
Earned Premium	\$181,658,399	\$199,703,149	\$252,075,000
Investment Income	-2,742,932	22,827,842	14,200,000
Other Income	98,785	111,888	100,000
Income	\$179,014,252	\$222,642,879	\$266,375,000
Claim Incurred	\$158,151,776	\$144,604,353	\$178,973,250
Claim Expenses Incurred	29,234,797	27,746,987	37,811,250
Other Expenses	38,585,898	37,448,998	47,894,250
Expenditures	\$225,972,471	\$209,800,338	\$264,678,750
Net Gain (Loss)	-\$46,958,219	\$12,842,541	\$1,696,250
Beginning Surplus	\$126,155,519	\$74,383,190	\$91,907,506
Net Income	-46,958,219	12,842,541	1,696,250
Change to Non-admitted	-4,814,110	4,681,775	0
Ending Surplus	\$74,383,190	\$91,907,506	\$93,603,756
Assessment Threshold	\$39,070,155	\$50,563,495	\$59,762,157
Surplus to Assessment Threshold Ratio	1.90	1.82	1.57

* MAIF is on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. 2003's financial results are as of 11/30/2003. Year-end adjustments and reserve changes may significantly change the results. All 2003 numbers are subject to adjustment.

** Estimated 2004 statutory results as shown above do not include any anticipated capital gains resulting from the sale of invested assets, or changes in unrealized gains or losses to surplus.

Source: Maryland Automobile Insurance Fund

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Exhibit 6 provides information on the Insured Division assessment threshold. The statute governing MAIF established the assessment threshold as 25% of the average of the last three years' direct written premiums. For calendar 2004, MAIF estimates a three-year average of \$239,048,628 in direct written premiums, and 25% of the three-year average is \$59,762,157, which represents the assessment threshold for calendar 2004. If MAIF's surplus drops below the assessment threshold and MAIF has an operating loss, it will have to certify an assessment to all other insurance companies doing business in Maryland. The insurance companies pass the assessment on to policyholders.

Exhibit 6
Insured Division
Maryland Automobile Insurance Fund
Minimum Assessment Threshold
Calendar 2000 – 2004

Calendar Year	Direct Written Premium	Three-year Average	Minimum Required Surplus
2000	\$103,579,924		
2001	156,266,052		
2002	208,995,883	\$156,280,620	\$39,070,155
Est. 2003	241,500,000	202,253,978	50,563,495
Est. 2004	\$266,650,000	\$239,048,628	\$59,762,157

Source: Maryland Automobile Insurance Fund

Exhibit 7 is a financial statement of the Uninsured Division. The data reflects the \$20 million transfer from the MAIF Uninsured Division to the general fund in calendar 2002. The Budget Reconciliation and Financing Act (BRFA) of 2002 (Chapter 440, Acts of 2002) authorized the transfer which occurred in late June 2002. The Uninsured Division estimates it will increase the ending surplus from calendar 2003 to 2004 by a little under \$1 million.

**Exhibit 7
Uninsured Division
Maryland Automobile Insurance Fund
Calendar 2002 – 2004**

	CY 2002 <u>Actual</u>	As of 11/30/2003 <u>Actual*</u>	CY 2004 <u>Estimated**</u>
MVA Fines	\$2,000,000	\$2,100,000	\$2,163,000
Collections N&J	1,482,674	1,283,745	1,500,000
Investment Income	1,445,912	505,945	570,000 ***
Income	\$4,928,586	\$3,889,690	\$4,233,000
Claims Incurred	\$1,311,889	\$1,072,747	\$1,442,000
Claims Expenses Incurred	1,114,468	589,800	628,300
Collection Expenses	456,706	354,111	382,000
Administrative Expenses	967,721	767,600	834,000
Expenditures	\$3,850,784	\$2,784,258	\$3,286,300
Net Gain	\$1,077,802	\$1,105,432	\$946,700
Beginning Surplus	\$25,563,041	\$6,416,004	\$7,261,256
Net Income	1,077,802	1,105,432	946,700
Unrealized Gain (Losses)	-224,839	-260,180	
Transfer to State	-20,000,000		
Ending Surplus	\$6,416,004	\$7,261,256	\$8,207,956

* MAIF is on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. December results are not yet available, so 2003 financial results are shown as of November 30, 2003. Year-end adjustments and reserve changes may significantly change the results. All 2003 numbers are subject to adjustment.

** Estimated 2004 statutory results as shown above do not include any anticipated capital gains resulting from the sale of invested assets, or changes in unrealized gains or losses to surplus.

*** The decline in investment income is due to the fact that the State transferred \$20 million from the Uninsured Division surplus to the general fund in late June, 2002.

Source: Maryland Automobile Insurance Fund

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Exhibit 8 indicates that there has not been a dramatic change in the population distribution of high risk drivers. Although total policies have more than doubled from calendar 2000 through 2003, the distribution has remained very similar. Inner Prince George's County consistently has the highest percentage of active vehicles with MAIF policies.

Exhibit 8
Active Policies – Active Vehicle Analysis
Maryland Automobile Insurance Fund
Calendar 2000 – 2003

<u>Territory</u>	<u>2000</u>	<u>Dist %</u>	<u>2001</u>	<u>Dist %</u>	<u>2002</u>	<u>Dist %</u>	<u>2003</u>	<u>Dist %</u>
Baltimore City	6,617	10.8%	10,575	10.3%	12,797	10.1%	12,145	9.4%
Inner Baltimore County	2,960	4.8%	6,359	6.2%	8,398	6.6%	8,665	6.7%
Outer Montgomery	2,540	4.2%	4,279	4.2%	5,584	4.4%	5,885	4.6%
Outer Prince George's County	4,356	7.1%	7,101	6.9%	8,992	7.1%	9,755	7.5%
Outer Baltimore County	1,672	2.7%	3,699	3.6%	4,923	3.9%	5,916	4.6%
Inner Montgomery County	2,851	4.7%	5,117	5.0%	6,524	5.2%	6,486	5.0%
Inner Prince George's County	14,240	23.3%	21,621	21.1%	25,353	20.0%	25,515	19.7%
Eastern Shore	2,642	4.3%	4,594	4.5%	5,798	4.6%	6,196	4.8%
Rest of State	23,221	38.0%	39,190	38.2%	48,223	38.1%	48,713	37.7%
Total Policies	61,099	100.0%	102,535	100.0%	126,592	100.0%	129,276	100.0%

Source: Maryland Automobile Insurance Fund

Issues

1. Current Financial Status

During the 2003 interim, there was concern among the legislature that MAIF would be required to assess a surcharge on the Maryland automobile insurance industry. An assessment is required when MAIF has an operating loss and MAIF's surplus falls below the assessment threshold level (25% of the average of the last three years' direct written premiums). Under previous projections, an operating loss for calendar 2003 was anticipated, and an assessment was a very real possibility. In response, MAIF established a single corporate objective for its 2003 goals: "The operating results for 2003 will be such that, based on current law, there will be no assessment in 2004." The objective was meant to reinforce to all MAIF employees the importance of operating results.

MAIF projects an operating gain in 2003. MAIF increased total earned premium income from \$181.6 million in calendar 2002 to an expected \$199.7 million in calendar 2003. Operating results are greatly enhanced by an increase in the value of MAIF's equity investments. MAIF received investment income of -\$2.8 million in calendar 2002 and expects to receive \$22.9 million in calendar 2003. Simultaneously, total claims incurred expenditures decreased from \$158.2 million in calendar 2002 to \$144.6 million in calendar 2003. Fortunately, it does not appear that MAIF will have to require an assessment in 2004. MAIF advises that the last four years have shown that operating results and surplus levels can change quickly and dramatically. The existence of an adequate surplus during these periods is the only way to keep an assessment from occurring.

The Department of Legislative Services recommends that MAIF comment on its current financial status and discuss how it was able to avoid an assessment in 2004. MAIF should also discuss measures it will take to ensure an assessment is not required in the future.

Recommended Actions

1. Nonbudgeted.

**Object/Fund Difference Report
Maryland Automobile Insurance Fund**

<u>Object/Fund</u>	<u>CY 2003 Actual</u>	<u>CY 2004 Estimated</u>	<u>CY 03 – CY 04 Amount Change</u>	<u>Percent Change</u>
Positions				
01 Regular	538.00	537.00	-1.00	-0.19%
02 Contractual	2.00	2.00	0.00	0%
Total Positions	540.00	539.00	-1.00	-0.19%
Objects				
01 Salaries and Wages	\$ 29,835,367	\$ 30,033,494	\$198,127	0.66%
02 Technical & Spec Fees	11,484,666	12,596,542	1,111,876	9.68%
03 Communication	2,035,464	2,026,595	-8,869	-0.44%
04 Travel	102,860	118,901	16,041	15.59%
06 Fuel & Utilities	309,879	313,482	3,603	1.16%
07 Motor Vehicles	391,752	149,151	-242,601	-61.93%
08 Contractual Services	3,141,822	2,530,511	-611,311	-19.46%
09 Supplies & Materials	830,190	792,992	-37,198	-4.48%
10 Equip - Replacement	14,927	20,875	5,948	39.85%
11 Equip - Additional	273,821	483,777	209,956	76.68%
13 Fixed Charges	466,310	495,933	29,623	6.35%
14 Land & Structures	17,900	500	-17,400	-97.21%
Total Objects	\$ 48,904,958	\$ 49,562,753	\$ 657,795	1.35%
Funds				
07 Nonbudgeted Fund	\$ 48,904,958	\$ 49,562,753	\$ 657,795	1.35%
Total Funds	\$ 48,904,958	\$ 49,562,753	\$ 657,795	1.35%

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**Fiscal Summary
Maryland Automobile Insurance Fund**

<u>Unit/Program</u>	<u>CY 2003 Actual</u>	<u>CY 2004 Estimated</u>	<u>CY 03- CY 04 Amount Change</u>	<u>CY 03 – CY 04 % Change</u>
42 Insured Division	\$ 47,413,814	\$ 48,159,936	\$746,122	1.57%
47 Uninsured Division	1,491,144	1,402,817	-88,327	-5.92%
Total Expenditures	\$ 48,904,958	\$ 49,562,753	\$657,795	1.35%
Nonbudgeted Fund	\$ 48,904,958	\$ 49,562,753	\$657,795	1.35%
Total Appropriations	\$ 48,904,958	\$ 49,562,753	\$657,795	1.35%